

With most of the country now at Alert Level 2 (AL 2) except Auckland (which remains at AL 4), people movements and economic activity have begun to recover. However, building material shortages and price pressures are becoming more acute, meaning inflation is likely to rise. Domestic supply chains in the AL 2 regions are being impacted by restricted activity in Auckland. Our early assessment is that this is adding \$15m - \$50m over and above the usual weekly cost of operating at AL 2.

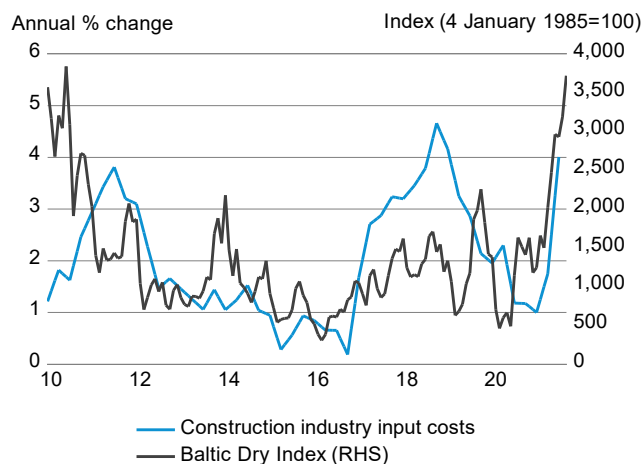
Global shipping costs rising...

Global shipping costs are rising sharply, with the Baltic Dry Index reaching its highest level in over a decade in August. These costs are being passed on mainly to consumers, contributing to rising inflation both globally and in New Zealand. There is concern that exporters' margins could be squeezed, although there is less evidence of that to date. Access to refrigerated containers remains a challenge with shipping lines favouring higher-value freight leading to reduced turnover of standard containers.

...while Delta is slowing the global recovery

Global demand appears to be weakening with the Delta variant slowing the recovery. The ANZ World Commodity Price Index fell 1.6% in August, following a 1.7% fall in July. Dairy prices fell 4.0%, driven by lower milk powder prices. The prospect for dairy prices remains positive however, with whole milk powder prices up 3.3% in this week's *GlobalDairyTrade* auction, supporting a view of Fonterra's year's final pay-out being around \$8 per kg of milk solids (the highest since the 2013/14 season).

Figure 1: Construction input and global shipping costs



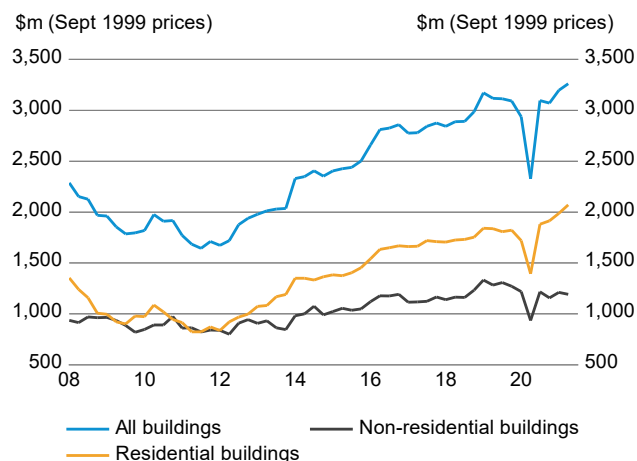
Source: Stats NZ, Haver

Cost of construction likely to rise...

The supply chain disruptions are leading to higher inflationary pressures in the construction industry (Figure 1). The Government's announced easing of restrictions on some Auckland building materials manufacturers during AL 4 may reduce some of these pressures, but prices are still expected to rise.

Strong demand will also be adding to cost pressures. The volume of building work put in place grew 2.0% in the June 2021 quarter, with residential construction up 4.2%. Record high annual consents issuance and resilient demand post-lockdown are expected to support residential construction over the year ahead. However, capacity constraints and supply chain disruptions will pose challenges for further growth.

Figure 2: Building work put in place



Source: Stats NZ

...with regional alert levels impacting production

Some firms outside of Auckland are concerned they will be unable to operate due to a lack of supplies normally produced or warehoused in Auckland. Our early assessment is for an additional loss of activity of between \$15m - \$50m per week when the rest of New Zealand is at AL 2. This is small compared to the estimated \$600m weekly cost of keeping Auckland at AL 4. However, this impact will be felt unevenly, with some businesses heavily impacted.

Traffic rising as alert levels fall

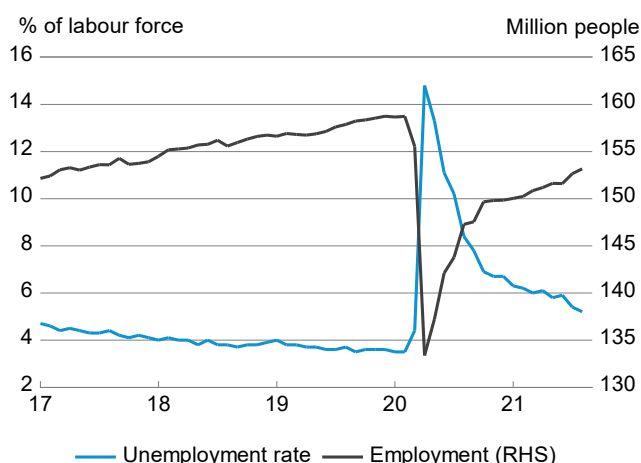
Light traffic in regions excluding Auckland was up 108% compared to the previous week, and heavy traffic was up 107%. Heavy vehicle traffic across the Auckland boundary continues to rise, while light vehicle traffic remains low.

Globally, data continue to indicate a slowing in the economic recovery and increased inflation pressures amidst ongoing supply chain issues, leading to challenging trade-offs for central banks.

Weak US employment growth...

Nonfarm employment in the United States (US) increased by just 235,000 in August, well below analyst expectations (Figure 3). Services industries such as leisure and hospitality bore the brunt of the slowdown owing to the spread of the Delta variant. The unemployment rate fell in line with expectations to 5.2%, the lowest rate since March 2020. Average hourly earnings rose by a quicker-than-expected 0.6% and following strong growth in the previous four months as well. Strong wage growth can be partly explained by compositional effects (as lower-wage industries have been relatively more affected by the pandemic), but also reflects that the labour market is tighter than headline figures would suggest. Indeed, job openings rose to a new record-high of 10.9 million in July.

Figure 3: US labour market



Source: Haver

...as RBA starts to taper...

As Australia also deals with the spread of the Delta variant, the Reserve Bank of Australia (RBA) kept its cash rate target at 10 basis points. As previously signalled, it reduced the amount of asset purchases from AU\$5 billion a week to AU\$4 billion a week. However, this amount will now be reviewed in mid-February 2022 instead of November 2021, leading analysts to call it a 'dovish taper'. The RBA expects the setback to the economic recovery caused by the current Delta outbreak to be temporary, but acknowledged that the timing and pace of the bounce-back is uncertain. The Bank expects the economy to be back to its pre-Delta path in the second half of 2022.

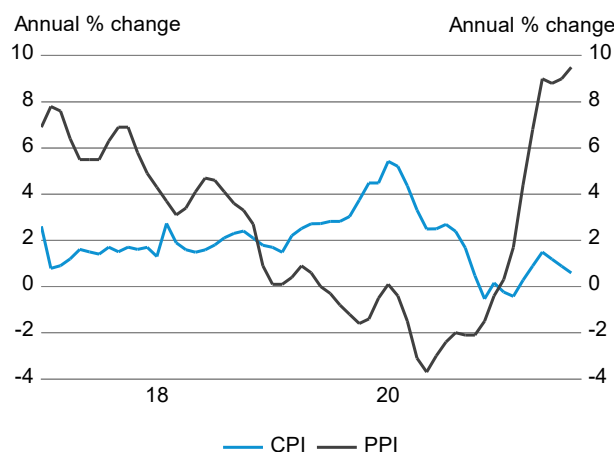
...the ECB holds...

The European Central Bank (ECB) took a similar approach, keeping its key policy rates unchanged but confirming its intentions to reduce asset purchases in the next quarter. While consumer price index (CPI) inflation reached a decade-high of 3.0% in August, the ECB emphasised that interest rates will remain low until inflation appears likely to stabilise at 2% over the medium term.

...while CPI inflation eases in China...

Inflation appears more contained in China, with annual CPI growth of 0.6% in August. The outturn was lower than analyst expectations and down from 0.9% in July, driven by 5% food price deflation. Pork prices are down 45% compared to the same period last year, reflecting base effects and a resurgence in supplies following the effects of African swine fever. However, producer price inflation increased further in the month, reaching 9.5%, from 9.0% in July (Figure 4).

Figure 4: China consumer and producer prices



Source: Haver

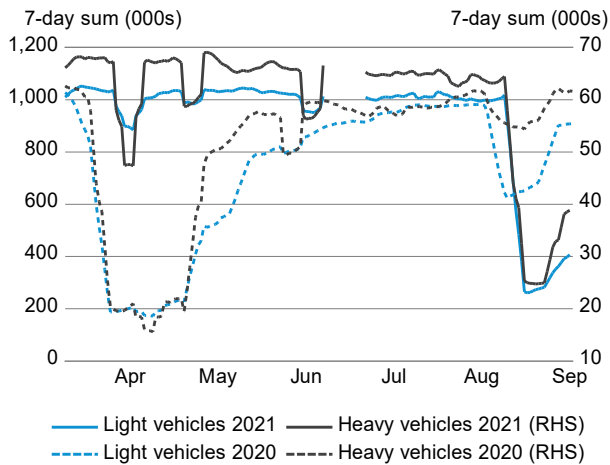
...as trade surges to new record

Despite the apparent slowing in global growth, as well as disruption at the country's second-largest port due to an outbreak of COVID-19, China's export and import values reached new record-highs in August. This could reflect some trade diversion from other Asian countries that are suffering severe outbreaks and are therefore unable to operate at full capacity. In addition, with the severe global supply bottlenecks, wholesalers and retailers are increasing their inventory levels to ensure they have enough stocks for Christmas.

Date	Key upcoming NZ data	Previous
13 September	Food Price Index	1.3 (mpc)
16 September	Gross domestic product	1.6 (qpc)

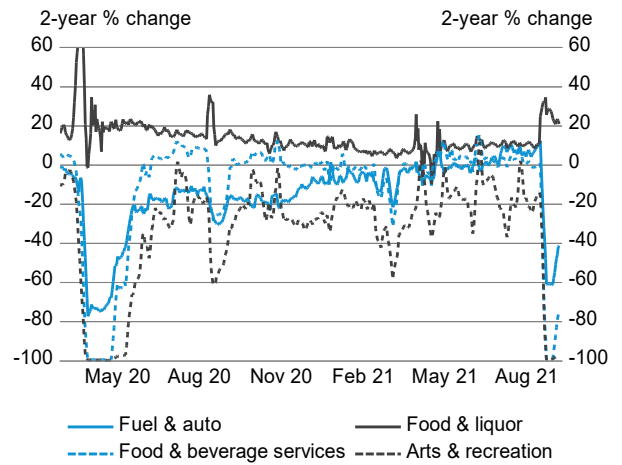
High-Frequency Indicators¹

Traffic and Freight Movement



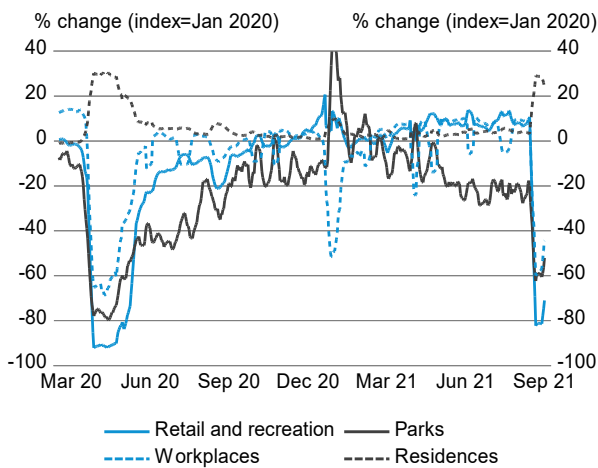
Source: Waka Kotahi NZ Transport Agency

Card Spending



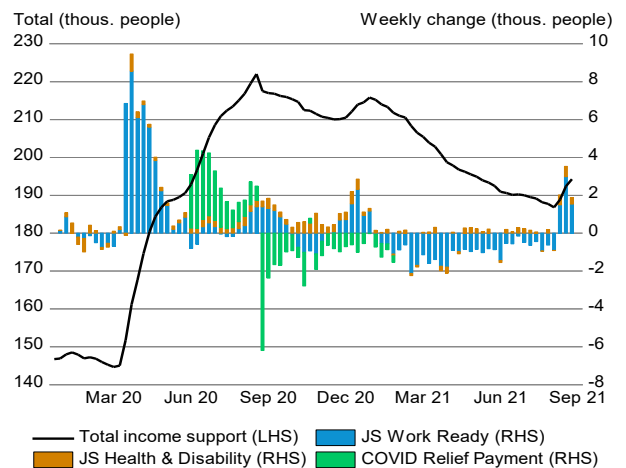
Source: Marketview data via MBIE

People Movements at Selected Locations



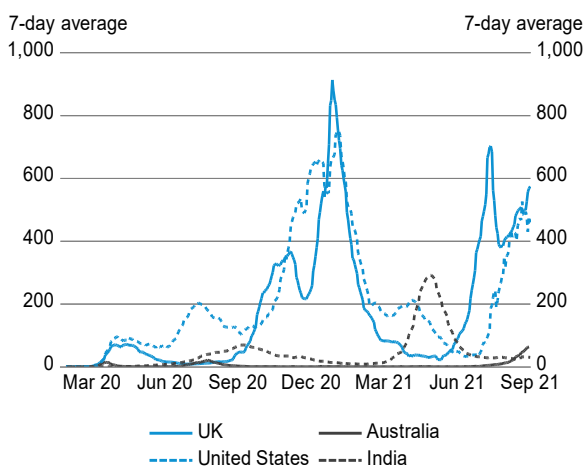
Source: Google

Jobseeker (JS) and Income Support Recipients



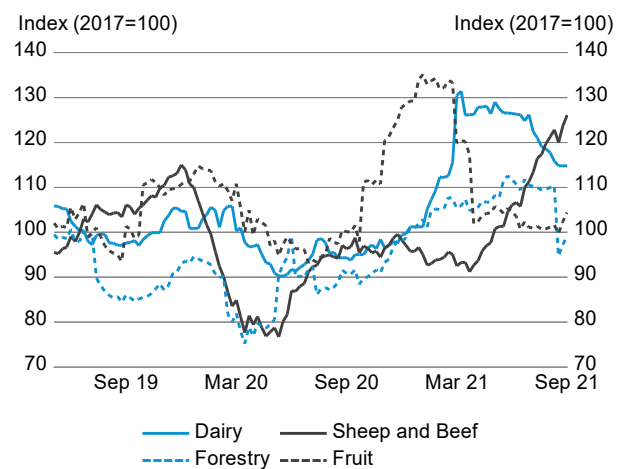
Source: MSD

COVID-19 Cases per Million People



Source: World Health Organisation/Haver

World Commodity Prices



Source: ASB

1 Additional high frequency indicators are available on the Stats NZ COVID-19 data portal: <https://www.stats.govt.nz/experimental/covid-19-data-portal>

Quarterly Indicators		2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2
Real Production GDP (1)	qpc	-1.5	-10.8	14.1	-1.0	1.6	...
	aapc	1.7	-1.6	-2.2	-2.9	-2.3	...
Current account balance (annual)	%GDP	-2.8	-1.8	-0.8	-0.8	-2.2	...
Merchandise terms of trade	apc	5.4	6.3	-0.3	-1.6	-0.9	0.0
CPI inflation	qpc	0.8	-0.5	0.7	0.5	0.8	1.3
	apc	2.5	1.5	1.4	1.4	1.5	3.3
Employment (HLFS) (1)	qpc	1.0	-0.4	-0.6	0.7	0.6	1.1
Unemployment rate (1)	%	4.2	4.1	5.3	4.8	4.6	4.0
Participation rate (1)	%	70.7	69.9	70.1	70.2	70.4	70.5
LCI salary & wage rates - total (2)	apc	2.5	2.1	1.8	1.6	1.6	2.1
QES average hourly earnings - total (2)	apc	3.7	3.0	4.2	4.3	4.0	4.0
Core retail sales volume	apc	4.0	-11.7	7.6	4.4	5.4	30.2
Total retail sales volume	apc	2.3	-14.2	8.1	4.7	6.6	33.3
WMM - consumer confidence (3)	Index	104.2	97.2	95.1	106.0	105.2	107.1
QSBO - general business situation (1,4)	net%	-66.2	-60.1	-38.2	-14.9	-7.9	10.1
QSBO - own activity outlook (1,4)	net%	-12.3	-24.6	-0.6	10.6	7.8	27.6
Monthly Indicators		Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21
Merchandise trade balance (12 month)	NZ\$m	1,701	748	-49	-277	-1,104	...
Dwelling consents - residential	apc	44.7	83.7	17.3	24.0	24.2	...
House sales - dwellings	apc	37.0	439.7	86.4	9.8	-11.7	...
REINZ - house price index	apc	23.9	26.8	29.7	30.0	30.7	...
Estimated net migration (12 month total)	people	3,229	3,697	4,201	4,711	...	...
ANZ NZ commodity price index	apc	4.0	6.8	7.9	17.5	16.9	15.4
ANZ world commodity price index	apc	20.2	24.2	25.2	28.0	22.2	21.5
ANZBO - business confidence	net%	-4.1	-2.0	1.8	-0.6	-3.8	-14.2
ANZBO - activity outlook	net%	16.6	22.2	27.1	31.6	26.3	19.2
ANZ-Roy Morgan - consumer confidence	net%	110.8	115.4	114.0	114.1	113.1	109.6
Weekly Benefit Numbers		30 Jul	6 Aug	13 Aug	20 Aug	27 Aug	3 Sep
Jobseeker Support	number	188,193	187,761	186,840	188,862	192,390	194,277
Work Ready	number	108,273	107,643	106,734	108,228	111,213	112,749
Health Condition and Disability	number	79,920	80,115	80,106	80,634	81,180	81,528
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...
Daily Indicators		Thu 2/9/21	Fri 3/9/21	Mon 6/9/21	Tue 7/9/21	Wed 8/9/21	Thu 9/9/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.7064	0.7114	0.7141	0.7145	0.7111	0.7090
NZD/AUD	\$	0.9600	0.9611	0.9599	0.9587	0.9610	0.9638
Trade weighted index (TWI)	index	74.9	75.2	75.4	75.4	75.3	75.2
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.49	0.48	0.50	0.52	0.52	0.53
10 year govt bond rate	%	1.81	1.82	1.88	1.91	1.94	1.92
Share markets (6)							
Dow Jones	index	35,444	35,369	...	35,100	35,031	34,879
S&P 500	index	4,537	4,535	...	4,520	4,514	4,493
VIX volatility index	index	16.4	16.4	...	18.1	18.0	18.8
AU all ords	index	7,784	7,827	7,824	7,826	7,808	7,659
NZX 50	index	13,280	13,289	13,300	13,322	13,193	13,096
US interest rates							
3 month OIS	%	0.08	0.08	0.08	0.08	0.08	...
3 month Libor	%	0.12	0.12	0.11	0.12	0.12	...
10 year govt bond rate	%	1.29	1.33	...	1.38	1.35	1.30
Commodity prices (6)							
WTI oil	US\$/barrel	69.99	69.34	...	68.49	69.36	...
Gold	US\$/ounce	1,813	1,823.70	1,821.60	1,802.15	1,786.00	...
CRB Futures	index	557	558.00	...	554.20	554.43	...

(1) Seasonally adjusted
(2) Ordinary time, all sectors
(3) Westpac McDermott Miller

(4) Quarterly Survey of Business Opinion
(5) Reserve Bank (11am)
(6) Daily close

Data in italic font are provisional
... Not available

Country	Indicator		Jan 21	Feb 21	Mar 21	2021Q1	Apr 21	May 21	Jun 21	2021Q2	Jul 21	Aug 21
United States [9.6% share of total goods exports]	GDP (1)	qpc				1.5				1.6		
	Industrial production (1)	mpc	1.1	-3.0	2.8		0.0	0.8	0.2		0.9	...
	CPI	apc	1.4	1.7	2.6		4.2	5.0	5.4		5.4	...
	Unemployment rate (1)	%	6.3	6.2	6.0		6.1	5.8	5.9		5.4	5.2
	Employment change (1)	000s	233.0	536.0	785.0		269.0	614.0	962.0		1053.0	235.0
	Retail sales value	apc	9.4	6.5	29.7		53.4	28.0	18.7		15.8	...
	House prices (2)	apc	11.2	12.1	13.5		15.1	17.1	19.1		...	...
	PMI manufacturing (1)	index	58.7	60.8	64.7		60.7	61.2	60.6		59.5	59.9
Consumer confidence (1)(3)	index	87.1	95.2	114.9		117.5	120.0	128.9		125.1	113.8	
Japan [6.1%]	GDP (1)	qpc				-1.1				0.5		
	Industrial production (1)	mpc	3.1	-1.3	1.7		2.9	-6.5	6.5		-1.5	...
	CPI	apc	-0.7	-0.5	-0.4		-1.1	-0.7	-0.4		-0.3	...
	Unemployment rate (1)	%	2.9	2.9	2.6		2.8	3.0	2.9		2.8	...
	Retail sales value	apc	2.7	3.7	5.2		11.9	8.3	0.1		2.4	...
	PMI manufacturing (1)	index	49.8	51.4	52.7		53.6	53.0	52.4		53.0	52.7
	Consumer confidence (1)(4)	index	30.0	33.7	36.1		34.8	34.2	37.6		37.5	36.6
Euro area [5.5%]	GDP (1)	qpc				-0.3				2.2		
	Industrial production (1)	mpc	1.0	-1.2	0.6		0.7	-1.1	-0.3		...	...
	CPI	apc	0.9	0.9	1.3		1.6	2.0	1.9		2.2	...
	Unemployment rate (1)	%	8.2	8.1	8.1		8.2	8.0	7.8		7.6	...
	Retail sales volume	apc	-4.8	-1.3	13.8		23.6	8.6	5.4		3.1	...
	PMI manufacturing (1)	index	54.8	57.9	62.5		62.9	63.1	63.4		62.8	61.4
	Consumer confidence (5)	index	-15.5	-14.8	-10.8		-8.1	-5.1	-3.3		-4.4	-5.3
United Kingdom [2.7%]	GDP (1)	qpc				-1.6				4.8		
	Industrial production (1)	mpc	-1.6	0.5	1.5		-0.8	0.6	-0.7		...	...
	CPI	apc	0.9	0.7	1.0		1.6	2.1	2.4		2.1	...
	Unemployment rate (1)	%	5.1	5.0	4.9		4.8	4.8	4.7		...	...
	Retail sales volume	apc	-5.9	-3.6	6.9		42.1	24.1	9.1		2.4	...
	House prices (6)	apc	6.4	6.9	5.7		7.1	10.9	13.4		10.5	11.0
	PMI manufacturing (1)	index	54.1	55.1	58.9		60.9	65.6	63.9		60.4	60.3
	Consumer confidence (1)(5)	net %	-28.0	-23.0	-16.0		-15.0	-9.0	-9.0		-7.0	-8.0
Australia [15.8%]	GDP (1)	qpc				1.9				0.7		
	CPI	apc				1.1				3.8		
	Unemployment rate (1)	%	6.4	5.9	5.7		5.5	5.1	4.9		4.6	...
	Retail sales value	apc	10.3	5.2	3.9		23.8	7.1	2.9		-2.9	...
	House Prices (7)	apc				8.9					...	
	PMI manufacturing (1)	index	55.3	58.8	59.9		61.7	61.8	63.2		60.8	51.6
	Consumer confidence (8)	index	107.0	109.1	111.8		118.8	113.1	107.2		108.8	104.1
China [24.3%]	GDP	apc				18.3				7.9		
	Industrial production	apc	35.1	35.1	14.1		9.8	8.8	8.3		6.4	...
	CPI	apc	-0.3	-0.2	0.4		0.9	1.3	1.1		1.0	0.8
	PMI manufacturing (1)	index	51.3	50.6	51.9		51.1	51.0	50.9		50.4	50.1
South Korea [3.0%]	GDP (1)	qpc				1.7				0.8		
	Industrial production (1)	mpc	-1.2	4.2	-0.7		-1.9	-1.3	2.3		0.4	...
	CPI	apc	0.6	1.1	1.5		2.3	2.6	2.4		2.6	2.6

(1) Seasonally adjusted

(2) Case-Shiller Home Price Index 20 city

(3) The Conference Board Consumer Confidence Index

(4) Cabinet Office Japan

(5) European Commission

(6) Nationwide House Price Index

(7) Australian Bureau of Statistics

(8) Melbourne/Westpac Consumer Sentiment Index